

**AUDIT COMMITTEE BUSYNESS AND FINANCIAL  
REPORTING QUALITY**

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QUALITY**

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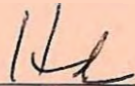
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## ABSTRACT

The objective of this study is to investigate the busyness of audit committee and its relationship with financial reporting quality. Increasing corporate governance reforms have made the responsibilities of audit committee more onerous; therefore, there is now widespread concern whether busy audit committees can carry out their monitoring duties effectively. To address the concern with audit committee busyness in an emerging economy like Malaysia, the study, which is drawn from the agency and resource dependence theories, examines if there is any relationship between audit committee busyness and financial reporting quality. The samples in this study comprise the top 150 listed companies in Malaysia, where audit committee busyness is analysed from the perspective of multiple directorships and overlapping board committees, using audit delay and financial restatements as proxies to financial reporting quality. It is observed that financial experts on the audit committee are busier than non-financial experts in terms of multiple directorships. Similarly, the audit committee chair has significantly higher multiple directorships than non-chair members. Findings from the study reveal that the presence of an audit committee financial expert in the remuneration committee is an important determinant to reduce audit delay. The relationship between multiple directorships of audit committee and audit report delay is also found to be statistically significant. Further evidence suggests that companies whose audit committee chair has overlapping membership, are more likely to restate their financial statement. Findings from this study also indicate that the overlapping committee membership of audit committee financial experts is significantly and negatively related to financial restatement. Findings from this study provide additional knowledge by suggesting that the board needs to examine the busyness of the audit committee chair and financial experts separately to improve the company's financial reporting quality. This would be relevant to policy-makers in evaluating the merits of regulating multiple directorships.

**Keywords :** multiple directorships, overlapping board committees, audit delays, restatements, financial reporting quality

## ABSTRAK

Matlamat kajian ini adalah untuk mengkaji hubungan antara kesibukan jawatankuasa audit dengan kualiti laporan kewangan. Pelbagai peningkatan dalam pembaharuan tadbir urus korporat telah menjadikan tanggungjawab jawatankuasa audit semakin membebankan. Justeru itu, ia menyebabkan kebimbangan yang tinggi sama ada jawatankuasa audit yang sibuk boleh menjalankan tugas pemantauan secara berkesan ataupun tidak. Untuk menangani kebimbangan isu kesibukan jawatankuasa audit dalam konteks ekonomi yang pesat membangun seperti Malaysia, kajian yang berdasarkan teori agensi dan teori bergantung sumber ini telah memeriksa hubungan antara kesibukan jawatankuasa audit dengan laporan kewangan berkualiti. Kajian ini menggunakan sebanyak 150 sampel yang terdiri daripada syarikat besar di Bursa Malaysia. Kesibukan jawatankuasa audit dikaji dari segi pengarah berbilang dan lembaga jawatankuasa bertindih dengan menggunakan kelewatan audit dan penyataan semula laporan kewangan sebagai proksi kepada kualiti laporan kewangan. Keputusan kajian telah menunjukkan bahawa pakar kewangan jawatankuasa audit adalah lebih sibuk daripada bukan-pakar kewangan jawatankuasa audit dari segi pengarah berbilang. Begitu juga pengerusi jawatankuasa audit mempunyai lebih banyak pengarah berbilang berbanding dengan bukan-pengerusi jawatankuasa audit. Keputusan kajian juga menunjukkan kehadiran pakar kewangan jawatankuasa audit dalam jawatankuasa imbuhan adalah penentu yang penting untuk mengurangkan kelewatan laporan audit. Hubungan antara pengarah berbilang dalam kalangan ahli jawatankuasa audit adalah berhubung secara signifikan dengan kelewatan laporan audit. Kajian ini juga telah membuktikan bahawa lembaga jawatankuasa bertindih bagi pengerusi jawatankuasa audit adalah lebih cenderung untuk menyatakan semula laporan kewangan. Walau bagaimanapun, lembaga jawatankuasa bertindih bagi pakar kewangan jawatankuasa audit adalah berhubung secara signifikan dan negatif dengan penyataan semula laporan kewangan. Keputusan daripada kajian ini memberi maklumat tambahan dengan mencadangkan agar lembaga pengarah perlu meneliti kesibukan pengerusi dan pakar kewangan jawatankuasa audit secara berasingan. Kajian ini adalah relevan kepada penggubal dasar dalam menilai merit mengawal selia pengarah berbilang.

**Kata kunci :** pengarah berbilang, lembaga jawatankuasa bertindih, kelewatan audit, penyataan semula laporan kewangan, kualiti laporan kewangan

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## **LIST OF ABBREVIATIONS**

AC	Audit Committee
ACC	Audit Committee Chair
ACE	Access, Certainty, Efficiency, which is the new name for the formerly MESDAQ (Malaysian Exchange of Securities Dealing and Automated Quotation) market
ACFE	Audit Committee Financial Expert
Big 4	Big four external auditor
BRC	Blue Ribbon Committee (US)
CEO	Chief Executive Officer
CFO	Chief Financial Officer
ESOS	Employee Share Options Scheme
MCCG	Malaysian Code on Corporate Governance
NASDAQ	The National Association Securities Dealer Automated Quotation system (the largest electronic equity exchange in the US)
REIT	Real Estates Investment Trusts
ROA	Return on assets
SC	Securities Commission of Malaysia
SOX	Sarbanes-Oxley Act 2002
UK	United Kingdom
US	United States
VIF	Variance Inflation Factor

# **CHAPTER 1**

## **INTRODUCTION**

### **1.0 Introduction**

The chapter is the introductory chapter for this study. This chapter comprises the background of the study, followed by the problem statements, audit committee busyness, research motivation and objectives as well as the research questions of the study. Further, the chapter discusses the uniqueness of the study, followed by the significance and scope of the study. Finally, the chapter highlights the organisation of the dissertation and summary.

### **1.1 Background of the Study**

Audit committee is not a new concept in developing countries, like Malaysia. In Malaysia, all listed companies have been mandated to establish an audit committee since 1 August, 1994 under section 15A of the Kuala Lumpur Stock Exchange (now known as Bursa Malaysia) Listing Requirements (Rahman and Salim, 2009). Various measures have been undertaken by the regulators to improve audit committee effectiveness as part of a strong corporate governance structure. For example, in 2007, the Malaysian Code on Corporate Governance was revised with additional requirements, that in the audit committee must consist of at least three directors, with the majority comprising independent non-executive directors and the chairman has to be an independent non-executive director with no alternate director allowed. These requirements have been

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